



INDIVIDUAL DEVELOPMENT ACCOUNTS

Central Appalachian Peoples Federal Credit Union

PARTICIPANT PROFILES

The Central Appalachian Peoples Federal Credit Union ("Credit Union") is a federally-chartered, member-owned credit union, whose members either live in the Appalachian region of Kentucky or in some way assist in its community-based economic development. Non-profit members located outside the Credit Union's region may request services if their mission is compatible with that of the Credit Union. The Credit Union began operating in 1980 with one office, 13 members, and \$65 dollars in capital. As of mid-1997, the Credit Union has three branches, 2,000 members, and total assets of \$5 million. Members of the Credit Union, most of whom are low-income workers, are provided with savings account services and loans

Since 1980, the Credit Union has made more than 7,700 loans totaling \$15 million dollars. Half of these loans were made to members earning less than \$12,000 a year; 75 percent to members earning less than \$18,000 a year. 60 percent of the loans were made to women and approximately 20 percent of the loans were made to individuals receiving some form of federal transfer payments, such as Aid to Families with Dependent Children, Social Security benefits, or food stamps.

In addition to the Individual Development Accounts ("IDA") that represent the Best

Practice that is the focus of this section, the Credit Union has participated in a number of other programs to assist low- and moderate-income persons in its market area. In 1994, the Credit Union, the Human/Economic Appalachian Development Corporation, and the Federation of Appalachian Housing Enterprises Incorporated established the Appalbanc Community Development Financial Institution ("Appalbanc"). Its primary mission is to promote individual and community development in rural central Appalachia, and is backed by combined assets of \$20 million. In partnership with more than 70 community-based development organizations, Appalbanc is successfully changing some of the fundamental realities of rural poverty by providing access to home mortgages and small business and consumer loans for low- and very-low income people.

The Credit Union is expanding its mortgage lending programs. During 1996 and 1997, the Credit Union effectively used the Federal Home Loan Bank of Cincinnati's Affordable Housing Program to obtain \$800,000 in grants to subsidize very low-income housing. The Credit Union is one of the few originators of HUD FHA/VA guaranteed loans in the region. Its secondary market-driven products include those offered by Rural Housing Services, State Housing Agencies, and Fannie Mae.

COMMUNITY BACKGROUND

The Credit Union's primary market area is a 23 county region of Appalachian Kentucky. This is a chronically low-income area where the median household income ranges from \$8,600 to \$13,200. According to the Kentucky State Data Center, in 1990, the 23 counties served by the Credit Union had poverty rates between 20.6 percent and 46.4 percent, compared to the national poverty rate of 13.1 percent.

Central Appalachia also has one of the highest rates in the country for undereducated adults. A recent study by the Appalachia Research Center at the University of Kentucky noted that the 49 Appalachian counties of Kentucky had an illiteracy rate of 48 percent; the highest level in the nation.

Owsley County, the site of the IDA program, is a geographically small county in the mountains of Southeastern Kentucky with a population of 5,381.¹ Due to the lack of any major highways and the absence of rail service, the county is somewhat isolated. The largest employer and the most important business in the county is the public school



system. Entitlement programs, such as social security and food stamps, are the largest single sources of income for the county's inhabitants. The major industries and employers in the county are tobacco and coal mining. Logging is very active, but supplies only a few jobs because the trees, once cut, are shipped out of the area for further processing.

¹ Kentucky Population Research Center, University of Louisville, "1997 County Population Estimates."

COMMUNITY NEEDS

Along with making available quality account services and loan products, the Credit Union strives to provide financial education and money management to those with low incomes. Some observers argue that one of the major obstacles to development in this area is that welfare recipients have been

discouraged from saving or owning their own cars or homes because of government imposed asset limits. These limits deny benefits to recipients who have combined assets and cash that exceed certain dollar amounts that are established by each state. However, recently enacted welfare reforms permit the states to

increase those limits. Accordingly, on May 1, 1996, the Commonwealth of Kentucky

allowed welfare recipients to save up to \$5,000 in an IDA without losing their benefits.

BEST PRACTICE PROGRAM OR PRODUCT

In 1996, as a result of the Commonwealth's legislative reforms, the Credit Union entered into a partnership with the Mountain Association for Community Development ("Mountain Association") and the Owsley County Action Team (the "Action Team") to create an IDA investment instrument for low- and very low-income individuals and welfare recipients in Owsley County. The Owsley County IDA Program was developed to encourage people to invest in their future. IDAs are based upon the belief that poverty is best overcome through asset accumulation rather than income alone. The goal of the IDA program is to create a vehicle that enables individuals with incomes less than 125 percent of the Federal poverty level to set financial goals and invest their capital to attain those goals. According to Credit Union sources, the Federal poverty level currently established for a family of four in Kentucky is \$20,045 in annual household income.

An IDA is an interest-earning savings account with restrictions placed upon use of the funds and the earnings on the account. The funds in an IDA accumulate much more quickly than a traditional savings account because the involvement of community organizations, financial institutions and state governments make it possible for additional monetary contributions to be made to the account. Use of IDA funds is restricted to those activities that have historically been connected to asset accumulation such as purchasing a home, starting a business or obtaining further education. While the

accounts receive preferential tax treatment under applicable state law no preferential federal tax treatment for such accounts is currently available.

Nationwide, every IDA program is organized and managed differently. Here, the Action Team provided the initial outreach and served as the facilitator of core group planning sessions. These meetings were used to develop organizational structure, contractual agreements, policy guidelines and program objectives. All sectors of the community were allowed to contribute ideas and resources. Issues, such as term limits, monthly meetings, programs for additional learning, various types of available credit and post IDA initiatives, were addressed.

The role of the Action Team has changed as the program has evolved. The Action Team



IDA workshops and meetings, such as this meeting sponsored by The Action Team, are mandatory for all of the program's participants.

continues to provide community outreach and facilitate mandatory monthly meetings for program participants. The monthly meetings involve areas of development such as account maintenance, peer support and goal setting. The Action Team has recently added new services such as client screening, technical assistance, budget and credit counseling and home ownership education.

The Mountain Association wrote the initial grant proposals to fund the program's start-up costs. The Owsley County IDA program was awarded an initial \$250,000 grant from the W. K. Kellogg Foundation, most of which was used to establish a Credit Union branch in Owsley County and to cover operational and administrative expenses. However, \$37,500 was retained for matching the deposits of low- and very low-income IDA participants.

The Credit Union serves as the fiscal administrator for the IDA program. In this capacity, the Credit Union establishes savings accounts for participants, accepts deposits (most at the monthly meetings), and manages all IDA reporting mechanisms for the program. These mechanisms include monthly statements for participants, program audits and fiscal reports to partners and other funding sources.

Once an IDA participation agreement is signed, the IDA program participant opens two separate accounts with the Credit Union. The first account is the designated IDA account. The second is a regular savings account. The purpose of the second account is to establish the customer as a member of the Credit Union. Both accounts earn interest at the rate of 6.5 percent.

Each participant is expected to deposit \$15 a month, or \$360 over 24 months, in his or her

IDA account. The IDA program contributes \$6 for each \$1 deposited, or \$2,160 over 24 months, to increase the participant's incentive to save.

The Credit Union's IDA initiative is strictly a one-time only income assistance program. After individuals have achieved the 24-month investment goals, they cannot re-enter the program. Applicants may withdraw up to 10 percent from their IDA accounts, with no penalty, but the funds must be replenished within 30 days of withdrawal.

For those who wish to leave the program before completion of the 24-month cycle, their total contributions will be refunded, plus any interest accrued. However, all IDA matching funds, plus the interest on them will go back into the existing IDA pool. If a participant misses more than three of the mandatory monthly meetings, he or she will be automatically terminated from the program.

After the 24-month program is completed, all participant withdrawals must be cosigned by a representative of the Action Team. This ensures that the funds will be utilized for the agreed goals of the participant. Examples of some of the agreed upon goals are outlined below. If a participant decides to use the funds for a purpose that is different from the original goal, the participant must get approval from an Action Team representative. Additionally, if a participant decides not to use the funds at the end of the program, the funds will automatically default to an Individual Retirement Account.

EXPERIENCES AND OBSTACLES

The goal of the IDA program is to assist low-income individuals by providing them with \$2,520 in savings plus interest to meet their needs in any of the following categories: (i) closing costs and down payment assistance on home purchases; (ii) home repair projects; (iii) higher education tuition and related costs; and (iv) micro-loan equity for small business development. For those interested in small business start-ups, the IDA program partnered with the Women's Initiative Network Groups

for technical assistance and training. The Credit Union's President reported that most participants have been interested in saving for home rehabilitation projects.

The largest single problem in establishing an IDA program is getting it started. Generally, community outreach and education can be counted on to increase participation in the program, but these efforts take time.

CURRENT STATUS

Although most of the groundwork has been laid, the Owsley County IDA program is still in its infancy. Informational seminars for area residents began in April 1997. The first IDA account was opened in July 1997. Since then, the number of accounts opened has increased to 31. The combined participant contributions in those accounts total \$2,508. The IDA

program has matched those funds with an additional \$15,047.

The program currently has the funding capacity to enroll 32 residents. If successful, this demonstration project could serve as a model for one form of welfare reform.

PARTNERSHIPS

The Owsley County IDA project is an initiative between the Credit Union, the Mountain Association for Community Economic Development, the Owsley County Action Team, Owsley County, community leaders, community residents, the Women's

Initiative Networking Group, and the W.K. Kellogg Foundation.

ADDITIONAL INFORMATION CONTACTS

Central Appalachia Peoples Federal Credit Union

Individual Development Accounts

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Berea, Kentucky 40403

Contact: Mr. Marcus Bordelon, President

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Fax: (606) 986-5836

Kentucky Housing Corporation

1231 Louisville Road

Frankfort, Kentucky 40601-6191

Phone: 1 (800) 633-8896 (in-state only) or
(502) 564-7630

Internet Home Page:

<http://www.kentuckyhousing.org/>

ADDITIONAL RESOURCES

Kentucky State Data Center

Urban Studies Institute

University of Louisville

426 W Bloom Street

Louisville, Kentucky 40208-5457

Phone: (502) 852-7990

Fax: (502) 852-7386

Internet Home Page:

<http://www.louisville.edu/cbpa/sdc>